

DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: 04/26/2012

POSITION: Neutral

BILL NUMBER: AB 2671

AUTHOR: Asm Jobs, Economic
Development, and the
Economy

SPONSOR: Assembly Committee on Jobs, Economic
Development, and the Economy

BILL SUMMARY: Small business financial development corporations: loans and loan guarantees.

This bill would permanently establish a 20 percent reserve requirement in the Small Business Loan Guarantee Program (SBLGP). The bill would also repeal an obsolete requirement imposed on the abolished Trade and Commerce Agency regarding the siting of such corporations.

FISCAL SUMMARY

There would be no fiscal impact on the Business, Transportation and Housing Agency.

COMMENTS

Finance is neutral on this bill because it will assist financial development corporations (FDCs) to maintain the current capacity for small business loan guarantees by removing the expiration date on the requirement that FDCs maintain a 20 percent, rather than 25 percent, reserve. Maintaining this capacity supports economic development in California.

ANALYSIS

1. Programmatic Analysis

Existing law:

- Establishes the California Small Business Expansion Fund for the purpose of paying for defaulted loan guarantees in the SBLGP.
- Requires the corporate guarantees to be secured by a reserve of at least 20 percent in the corporation's trust fund account until January 1, 2013, and 25 percent of the amount in the fund thereafter.

This bill would:

- Delete the expiration date of January 1, 2013, for the 20 percent deposit requirement on an FDC's loan guarantee liability, and would repeal provisions that would reinstate the 25 percent requirement commencing on January 1, 2013.
- Repeal the requirement that the Trade and Commerce Agency contract with an entity to conduct an independent statewide assessment of capital needs in California.

Analyst/Principal P. Abahazi	Date	Program Budget Manager Kristin Shelton	Date
Department Deputy Director			Date
Governor's Office:	By:	Date:	Position Approved _____ Position Disapproved _____
BILL ANALYSIS			Form DF-43 (Rev 03/95 Buff)

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ANALYSIS (continued)

Discussion: Prior to 2008, the maximum leverage limit for FDC trust funds was 4 to 1, meaning that FDCs could guarantee a maximum of \$4 in loans for every \$1 on deposit in the FDC's trust account. Chapter 601, Statutes of 2007 (AB 610/Price), increased the maximum leverage limit to 5 to 1 until June 30, 2013. The Business, Transportation and Housing Agency (BTH) indicates that currently no FDSs exceed the former leverage limit of 4 to 1 primarily because the FDCs have been making loan guarantees under the State Small Business Credit Initiative since 2010 when new federal funds became available. However, the FDCs support retaining the 5 to 1 leverage in the state program to provide maximum flexibility, in the future. The Trade and Commerce Agency no longer exists, so repealing a requirement of the agency is technical clean-up.

	SO	(Fiscal Impact by Fiscal Year)				
Code/Department	LA	(Dollars in Thousands)				
Agency or Revenue	CO	PROP				Fund
Type	RV	98	FC	2012-2013 FC	2013-2014 FC	2014-2015 Code
0520/Secty BT&H	SO	No		----- No/Minor Fiscal Impact -----		0918
<u>Fund Code</u>	<u>Title</u>					
0918	Small Business Expansion Fund					